

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of)

Federal-State Joint Board on)
Universal Service)

CC Docket No. 96-45

AMERITECH'S COMMENTS

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Ameritech respectfully offers the following comments in response to the Notice of Proposed Rulemaking ("NPRM") released in this docket on March 8, 1996.¹ In the NPRM, the Commission solicits views on a wide variety of important issues relating to proposed changes in the Commission's universal service rules and regulations, changes which are designed to implement the new directives of the Telecommunications Act of 1996 (sometimes referred to as the "Act").² Coincident with the issuance of the NPRM, the Commission also established a Federal-State Joint Board to make recommendations with respect to the issues raised in the NPRM.

¹ The additional principles listed in Section II summarize Ameritech's basic position in this docket.

² Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996)(to be codified at 47 U.S.C. secs. 151 et seq.). Since Ameritech's Comments and Reply Comments in the Commission's recent Part 36 reform docket are relevant to the matters raised in this NPRM, Ameritech incorporates those pleadings by reference herein. In the Matter of Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, CC Docket No. 80-286, Ameritech's Initial Comments filed October 10, 1995 and Ameritech's Reply Comments filed November 9, 1995.

INTRODUCTION

The Telecommunications Act of 1996 requires the Commission to take a fresh look at traditional approaches to promoting universal service. Apart from the obvious requirement to adopt rules and regulations which comply with the Act, the Commission's main goal in this docket should be to implement universal service policy in a manner that is sustainable in the nation's increasingly competitive telecommunications marketplace. This will require substantial changes in the current universal service rules which were adopted in an environment of only a few providers and intended to support only a few basic services. Now, a multitude of new providers have already begun providing local exchange service and more are being certified in the states each day. In addition, the Act now encourages the provision of access to advanced telecommunications and information services which are reasonably comparable, in both type and price, across areas with differing cost characteristics, with special considerations for schools, health care providers and libraries. Thus, while regulatory bodies and the industry can be justifiably proud of their efforts over the past 60 years to promote universal service -- efforts which have produced a 94% nationwide penetration rate -- the focus of this docket must be directed at the task of designing a system of universal service requirements and support mechanisms that will be sustainable over the long-run in the radically different telecommunications market of the 21st Century.

If the Commission's universal service policies in this docket are to be sustainable in the future, implicit subsidies must be eliminated and rates -- especially local exchange rates -- must be rebalanced to reflect the actual cost of providing service. Requiring some services to be priced above costs in order to subsidize other services will stifle, not promote, competition. To foster efficient competition, there must be a more economic relationship between the cost and price for telecommunication services.³ This is the most important problem the Commission must address in this docket.

This issue of implicit subsidies is important in this docket because of its impact on universal service. Many parties, for example, argue that access charges should be cost-based. But that debate cannot ignore how access charges currently support universal service. Rate rebalancing, for access and other services, may cause other rates to rise. If, as a result, certain customers no longer can afford to pay the true cost of a "core" service, then they should be eligible for a targeted subsidy. But reflecting the true cost of a telephone service in its price is a critical first step to ensuring universal service in the context of robust competition. The Joint Board and the Commission should

³ See e.g. Robert W. Crandall and Leonard Waverman, Talk is Cheap: The Promise of Regulatory Reform in North American Telecommunications (The Brookings Institution 1995) at 282 ("it is clear that the pressure for local competition and unbundling will require a fundamental restructuring of telephone rates. ... Subsidies will have to be eliminated or more carefully targeted, and rates for retail services will have to move toward cost.").

provide some direction in this docket on how these rate rebalancing issues will be resolved. Otherwise, the Joint Board and Commission will be addressing only a relatively small portion of the implicit subsidy problem.⁴

II.

GOALS AND PRINCIPLES OF UNIVERSAL SERVICE SUPPORT MECHANISMS

The Commission has identified the goals and principles of universal service support mechanisms which are set out in the Act.⁵ These goals and principles relate to quality and rates; access to advanced services; access in rural and high-cost areas; equitable and nondiscriminatory contributions; specific and predictable support mechanisms; access to advanced telecommunications services for schools, health care providers, and libraries; and other principles the Commission deems appropriate. Ameritech will explain in these comments how the principles in the Act should influence the Commission's policies on universal service and the resolution of the specific issues identified in the NPRM.

First, however, Ameritech offers the following additional principles which not only are consistent with the Act, but actually are critical to the Commission achieving any of its other universal service goals in this docket.

⁴ Today, the implicit subsidy associated with dial equipment minute ("DEM") weighting and the Universal Service Fund is approximately \$1.1 billion, whereas the total implicit subsidy problem has been estimated to be much higher. *See* Hatfield Associates, The Cost of Basic Universal Service, July 1994 (estimating the total to be \$3.9 billion); Monson and Rohlf, The \$20 Billion Impact of Local Competition in Telecommunications, July 1993 (estimating the total to be \$20 Billion).

⁵ NPRM at pars. 3-12.

- * Universal service policy must be sustainable with government's pro-competition policy.
- * Prices must be restructured to eliminate implicit subsidies.
- * Subsidies should only fund basic "core" services and should be targeted for the benefit of only those individuals who in fact need assistance to stay on the network.
- * Explicit subsidies must be funded in a competitively neutral manner and administered by a neutral third party.
- * Unilateral requirements must be applied symmetrically to all providers.⁶
- * For bilateral requirements, compensation must be paid only to those providers bearing the requirement.⁷
- * The methodology for quantifying the amount of universal service funding must strike a reasonable balance between its ability to prevent "gaming" of the regulatory process, on the one hand, and its degree of precision and level of administrative costs, on the other.

If the Commission reflects these additional principles in its decisions in this docket, it will have its best opportunity to achieve the other goals and principles for universal service in satisfaction of the requirements of the Act.

⁶ A unilateral requirement is a performance requirement imposed by government as a condition for providing services without any assurance by government that the affected firms will be able to generate revenue sufficient to cover the associated costs. See Cherry and Wildman, A Framework For Managing Telecommunications Deregulation While Meeting Universal Service Goals, Sept. 1995.

⁷ A bilateral requirement is a performance requirement imposed by government for which the government provides the affected firms some form of compensation or special consideration in exchange for meeting such requirement. See Cherry and Wildman, *id.*

III.

RURAL, INSULAR AND HIGH-COST AREAS AND LOW-INCOME CONSUMERS

In this part of the NPRM, the Commission asks for comments on several issues having to do with the design and operation of the support mechanisms for rural, insular, and high-cost areas and low-income consumers in a pro-competitive, de-regulatory environment. Specifically, the Commission asks for views on the appropriate standards for evaluating the affordability of telecommunications services and how access to advanced telecommunications and information services can be promoted in all regions in the country, with availability and prices reasonably comparable to urban areas.

What Services to Support

As for what telecommunications and information services should receive universal service support, Ameritech believes that support should be provided for a limited, specifically defined set of “core” services which provide basic access to telecommunications and information services.⁸ This basic access is all that is needed, in terms of transmission capability, to access more advanced telecommunications and information services, including access to the Internet. Those more advanced services, however, should not

⁸ In this regard, the Joint Board and the Commission must be mindful of the limits on their jurisdiction when evaluating the comments of those who undoubtedly will assert the merits of universal service as a means to allocate support for customer premises equipment and inside wire that is not subject to the Commission’s regulation, except with respect to limited technical specifications.

receive universal service support;⁹ instead, the Commission should rely on the marketplace to make advanced telecommunications and information services available.¹⁰ Thus, for example, the risk of investing in digital transmission facilities should be allocated to the individual carrier and its assessment of the costs of supply and the demands of the marketplace.

Accordingly, Ameritech agrees with the Commission's tentative conclusion that such support should be provided to the following set of "core" services: single party, voice-grade basic telephone service,¹¹ touch-tone, access to emergency service (911 and E911)¹² and access to operator services. For the reasons the Commission explained in the NPRM,¹³ support for these

⁹ The Act does not provide for universal service support for the advanced services discussed in Section 254(h)(2).

¹⁰ Likewise, the Commission should continue to rely on industry bodies to develop technical and performance standards, and rely on the marketplace to produce quality service. On the latter point, it simply is not necessary for the Commission to "create a market-based incentive for carriers to provide quality services." NPRM at par. 69. The notion that the Commission must "spur carriers to compete for customers ... on the basis of service quality" (*id.*) is antithetical to dynamics of a competitive marketplace. The only telecommunications "horses" that will survive in the future are those which naturally race to provide the highest quality service with the single-minded purpose of not only satisfying, but actually exceeding, their customers' expectations. The rest will be reduced to glue by the marketplace long before they are "spurred" by a regulator.

¹¹ Access to single party telephone service would necessarily mean that the affected subscriber would also have access to interexchange telephone service, as well as "free" access to carriers which have "800" or similar toll free dialing to their service centers for service activation, termination, repairs and information on telephone subsidy programs.

¹² By access to emergency service, Ameritech means the transmission facilities that connect a subscriber to the location manned by public safety personnel, but not the equipment utilized by those personnel to actually provide 911 or E911 service. Support for that equipment and training for those personnel is generally supported by tax revenue.

¹³ NPRM at pars. 18-23.

services would be consistent with the principles in the Act;¹⁴ Ameritech believes that support for these services also would be consistent with the additional principles the Company outlined in Section II. of these comments. The Commission proposed definition of these “core” services strikes a reasonable balance at this time between the public interest rationale for supporting basic access to the public switched network and the economic efficiency of relying on the marketplace to identify and then satisfy demand for more advanced telecommunications and information services.¹⁵

Moreover, subsidies can effectively constitute barriers to entry in a competitive environment and can skew the marketplace by favoring one technology over another that, in fact, is more efficient; thus, “core” services which receive such subsidies should be strictly defined and available only to residential subscribers, on a one line per household basis, and should be specifically targeted to those subscribers who, in fact, actually need a subsidy in order to obtain the service after the necessary rate rebalancing discussed earlier has been achieved.

¹⁴ Section 254(c)(1) of the Act lists four criteria the Commission “shall consider” in defining the services eligible for universal service support. As the Commission notes (NPRM at par. 9), use of the word “consider” does suggest a certain amount of flexibility in evaluating any particular service under the four criteria. However, the four criteria are joined by the conjunction “and” not the word “or” thereby suggesting as a matter of statutory construction that the Commission must evaluate the eligibility of a particular service under all four criteria and not just any one of them.

¹⁵ In some cases, the market can replicate what in the past might have been a regulatory requirement, such as Ameritech Operating Companies voluntarily offering free toll blocking to certain subscribers whose service may otherwise be interrupted for non-payment, or voluntarily conducting trials of voice-mail for the homeless.

Ensuring Supported Services Evolve

The Commission asks in the NPRM how to ensure that supported services for rural, insular and high-cost areas and low-income consumers evolve.¹⁶ Rather than establishing a regular, fixed interval for periodic re-evaluation of the definition of “core” services, the Commission simply should decide now to do a re-evaluation five years from the date the Commission’s final order in this docket is released and then decide at that time what future course of action to take. In addition, rather than prescribing at this time fixed information requirements for purposes of evolving the definition of “core” services, the Commission should begin collecting the information it thinks necessary a short time prior to the scheduled re-evaluation. Even then, however, the Commission first should determine whether the necessary information is readily available in the marketplace, and then determine whether collection of additional information from providers is reasonable in light of the relative costs. If additional information is required, all providers should be obligated to provide it.

How to Determine Affordability

Given that “affordability” is a relative concept that is based on the wide variety of individual choices people make when allocating their personal resources,¹⁷ Ameritech believes that the “availability,” rather than the “unit,”

¹⁶ NPRM at pars. 66-67.

¹⁷ Ameritech believes that the nation’s \$19 average per month basic local exchange rate clearly is “affordable” in light of the \$22 average spent each month for basic cable service.

measure of telephone penetration rates is the better standard by which to determine whether potential subscribers have reasonable access to various telecommunications and information services.¹⁸ Building on that slightly broader standard, the Commission should also consider the percentage of individuals who want telephone service but do not have it “available.” This can be done by appropriately revising questions in the Bureau of the Census’ annual Consumer Expenditures Survey. This way, the Commission can obtain a much more objective and comprehensive view on the extent to which telecommunications and information services are available at just, reasonable and affordable rates to potential subscribers of various economic means in various parts of the nation.

How to Calculate the Subsidy

For calculating support amounts, the Commission should adopt a minimum rate which costs must exceed in order for a provider to be eligible for high-cost assistance.¹⁹ Under this approach, an “affordability benchmark rate” would be established. Such a rate could be based, for example, on statewide average rates or costs for “core” services²⁰ or a specified percentage of statewide median income. Eligible local exchange carriers then would get

¹⁸ The Commission currently reports on both measurements.

¹⁹ Ameritech explained this approach in its Initial and Reply Comments in last year’s docket on Part 36 reform. See fn. 2 supra.

²⁰ For some locations, rates for “core” services in rural areas are lower than comparable services in urban areas.

universal service support, when their costs for “core” services²¹ exceed the affordability benchmark rate, for the difference between: (a) the benchmark rate and their actual cost for “core” services, or, (b) their actual rate and their actual cost for “core” services, whichever is less. This approach does not subsidize that portion of a carriers’ revenue shortfall which is attributable to an unreasonably low rate for “core” services, nor does it allow for a subsidy when “core” rates are compensatory.

The Commission must not continue to implement universal service support through its Part 36 rules, including the substantial subsidy implicit in dial equipment minutes (“DEM”) weighting.²² Part 36 currently governs only incumbent local exchange carriers. If it continues to be the mechanism for administering universal service support,²³ then it and the related accounting rules in Part 32 would have to be expanded to include new entrants which under the Act must bear their fair share of such obligations. Moreover, the \$350 million subsidy occasioned by DEM weighting is the very kind of implicit subsidy, recovered through access rates, that is disfavored in the Act. Indeed, almost everyone now is willing to acknowledge that DEM weighting has absolutely no relationship to the affordability of service. Thus, rather than expand the coverage of the Part 36 rules, those rules should not be relied upon at all to implement universal service support. DEM weighting should

²¹ Administrative costs beyond the national average should not be subsidized by the universal service fund.

²² Part 36 contains jurisdictional separations rules; they are not needed to effectuate subsidies for promoting universal service.

²³ Ameritech believes that separations factors should be frozen at current levels and Part 36 should be eliminated altogether.

be eliminated immediately, with no transition period. In its place, the Commission should adopt the affordability benchmark mechanism discussed above.

There continues to be a legitimate issue within the industry regarding the use of proxy models, as opposed to reported costs, for administering universal service support. Some parties have proposed a Benchmark Costing Model for industry consideration and others have proposed an alternative. The public record may ultimately support the use of either, but no definitive assessment can be made at this time. Instead, the Commission should undertake a systematic evaluation of these proxy models and put the results on the public record for industry-wide review. Until that evaluation and review can be completed, Ameritech continues to recommend the use of actual wire center costs,²⁴ in conjunction with the affordability benchmark mechanism discussed above, for administering universal service support.

Miscellaneous Points

Finally, a few miscellaneous points are in order. The only carriers which should be eligible for universal service support are those carriers which have been properly certified by the state regulatory commission and have accepted the same bilateral requirements which are imposed on the incumbent LEC. Unless the Commission adopts the affordability benchmark mechanism discussed earlier, all of an eligible carrier's study areas in the

²⁴ Wire center costs should be used because the wire center is the basis upon which network costs are incurred.

entire state should be aggregated for purposes of determining universal service support, just as the Commission proposed in its Part 36 reform docket.²⁵ Except for the immediate elimination of DEM weighting, a relatively short, i.e. 12 to 18 months, transition period may be necessary for implementation of the new universal service support mechanisms. In the meantime, the interim cap on the current Universal Service Fund should continue for the same reasons the Commission extended that cap at the end of 1995.

IV.

SCHOOLS, LIBRARIES AND HEALTH CARE PROVIDERS

In this section of the NPRM, the Commission solicits views on the implementation of Sections 254(c)(3) and 254(h)(1) of the Act. Specifically, the Commission asks what services, in addition to the “core” services identified in Section III of the NPRM, should be supported by federal universal support mechanisms for schools, libraries and rural health care providers. The Commission asks how to implement these support mechanisms. And the Commission asks about the terms and conditions which should apply for the provision of interstate support to telecommunications carriers serving these institutions.

Before addressing each of these questions in the context of first, schools and libraries, and then rural health care providers, Ameritech offers a preliminary comment on the universal support mechanism which should

²⁵ See fn. 2 supra.

apply to both. The Commission should give very serious consideration to creating mandatory accounting entries, required of all providers, which allows for the quantification and tracking of the high-cost/low-income funding for “core” services, on the one hand, and the funding for “advanced” services for schools, libraries and rural health care providers, on the other. The funding is intended to support different types of services (“core” v. “advanced”), those services are defined differently (Section 254(c)(1) criteria v. “educational purposes” or “provision of health care”), and the services will be governed by different pricing parameters (urban/rural differential v. pure discount). These differences suggest that the accounting for these support programs should be separately identified. In addition, the accounting should be kept distinct so that the Commission is in a position in the future to eliminate one or the other program, if it is no longer required.²⁶ There should be one fund and one neutral third party administrator. But separate accounting should be maintained.

Schools and Libraries

The services provided to schools and libraries at a discount which receive universal service support must be “for educational purposes”.²⁷ A variety of different services might qualify under this definition, including

²⁶ The Commission already has indicated its intent to initiate a Notice of Inquiry within 30 months, and regularly thereafter, concerning the availability of advanced telecommunications capabilities. See Draft FCC Implementation Schedule for S. 652, The Telecommunications Act of 1996, Item No. 37, p. 43, rel. Mar. 27, 1996.

²⁷ Section 254(h)(1)(B). Any discounts provided under this section of the Act should apply to school and library accounts directly; no intermediaries should be allowed to qualify for any discounts in the name or on behalf of the schools and libraries.

access to the Internet, access to distance learning networks and other forms of video teleconferencing, access to the National Information Infrastructure network, access to DS1 facilities, and access to certain video programming or cable learning channels. Because different schools and libraries undoubtedly will want different functionalities, only a portion of which may be offered by a telecommunications service provider (e.g. transmission facilities but no CPE), the Commission should avoid defining any particular service or technology that must be made available and supported by universal service funds.²⁸ Instead, the Commission should give the marketplace an opportunity to work and intervene only if necessary.

It would be a mistake to let regulation, rather than market demand, drive service parameters. For example, some argued in the past that the Commission should order carriers to deploy fiber to the home because they thought fiber was necessary to deliver advanced telecommunications services. As it turned out, however, advances in compression technology facilitated the provision of some advanced services over copper wire and that, in turn, made fiber uneconomic at least in some situations. Thus, while the Act may require the creation of certain support mechanisms, the lesson

²⁸ In its recent report "KickStart Initiative: Connecting America's Communities to the Information Highway" (at p. 5), the United States Advisory Council on the National Information Infrastructure cautioned against a "one-size-fits-all-communities" approach and argued that "the key players from each community should come together to determine how that community's interests can best be served through connection to the Information Highway."

learned in the case of compression technology suggests that the Commission should avoid mandating the deployment of any particular technology and services or fixed timetables for deployment.

With respect to technology and services which are generally available, an abbreviated bona fide request process should be instituted for schools and libraries. The request should come from someone at the school or library who has the necessary authority to contract for services on behalf of the institution, such as the principal or librarian.²⁹ The request should be in writing and should be directed to all of the telecommunications carriers certified by the state commission to serve the area where the school or library is located. The request should specify the service desired. The requester should certify that the service will be used for educational purposes and will not be resold; the requester should agree to notify the carrier in advance of any changes in those certifications. If the school or library is going to use the services in conjunction with a party not eligible for the discount, that information should be provided in the request so that the carrier can ensure that other party is not the beneficiary of a discount for which it is not entitled. The school or library should be entitled to cancel their request, but must remain liable for reasonable implementation costs which the carrier incurred

²⁹ It is not necessary at this time for the Commission to specify any particular notification requirements. Instead, the Commission should give the market a chance to work and step in with rules only if and when it becomes necessary.

prior to cancellation. The carrier should begin providing the service requested as soon as practicable. If the carrier cannot provide the requested service, the carrier should promptly notify the school or library of the reasons why and engage in good faith discussions with the school or library on other service alternatives. Any of the parties should be entitled to ask the Commission (for interstate services) or the state regulatory commission (for intrastate services) to mediate or arbitrate any dispute arising under Section 254.

The Commission should keep the funding mechanism simple. Given that the services provided to schools and libraries for educational purposes must be provided “at rates less than the amounts charged for similar services to other parties,” a simple discount off the rate charged to others for similar service should suffice but should be the same for interstate and intrastate purposes in order to reduce the opportunity for arbitrage. Reimbursement for the discount should be provided by the universal service fund for education, either in the form of a cash reimbursement or an off set to the provider’s contribution requirement. Any other discount offered by the carrier beyond the level determined by the Commission should not be supported by the universal service fund. Although a telecommunications carrier ordinarily would provide instruction to a customer about the use of the carrier’s services even if it were not a requirement of the Act, the carrier cannot reasonably be expected to provide instruction on end user equipment that may be used in

connection with the carrier's service, and the costs for any such instruction should not be included in any universal service support mechanism.

Finally, the Commission should consider the relative merits of conducting a periodic survey of schools and libraries to determine whether they have reasonable access to telecommunications and information services. This would enable the Commission to determine not only the appropriateness of prevailing discounts but also whether there are other reasons why the school or library has not subscribed. Such other reasons may require other solutions, some of which may or may not be within the Commission's jurisdiction to address.

Health Care Providers

Ameritech's comments above regarding schools and libraries are equally applicable for health care providers. There are, however, a few exceptions and a few additional points.

The services for rural health care providers which qualify for support should be limited to services which originate at the health care facility. It would be extremely difficult to determine the urban/rural price differential with respect to terminating services, and it would be extremely difficult to police the use of terminating services. For both reasons, the differential and funding should apply to originating services only and these limitations

should apply with respect to services provided to schools and libraries, as well.

The Commission should be able to rely on any reasonable standard for defining urban and rural areas for purposes of administering a universal support mechanism for health care providers. This includes use of the Metropolitan Statistical Areas and Rural Statistical Areas designated by the Bureau of the Census.³⁰ However, once the Commission establishes a definition based on a reasonable, public standard, it should apply the standard consistently.

The rate differential for the rural health care provider should be based on the rate charged for the comparable service in the closest urban area, with the difference eligible for universal service support. It is unnecessary for the Commission to prescribe guidelines for what constitutes “comparable” services between urban and rural areas; instead, the Commission simply should require the availability of comparable services at the rate charged in the urban area and then informally resolve disputes if and when any arise.

³⁰ The definition should be determined based on the geographic location of the health care provider, and should not be based on the fact that the provider serves patients from rural areas.

V.

ACCESS TO ADVANCED SERVICES FOR SCHOOLS, LIBRARIES AND HEALTH CARE PROVIDERS

In contrast to the previous section IV. wherein the Commission sought to identify those telecommunications services eligible for universal service support, in this section of the NPRM, the Commission asks which advanced services should be made available to all schools, libraries and health care providers pursuant to Section 254(h)(2) of the Act.

Under that section of the Act, the Commission's obligation is to enhance access -- through "competitively neutral rules"-- to advanced telecommunications and information services "to the extent technically feasible and economically reasonable" These are important limitations. Access to these advanced services may require more than the transmission capabilities provided by a telecommunications carrier. For example, it may be necessary for these institutions to utilize computers, modems, and inside wiring to access advanced telecommunications and information services. Under those circumstances, access is not technically feasible unless transmission capabilities are combined with other equipment. Moreover, depending on the market price of these advanced services, access may not be economically reasonable. Therefore, rather than prescribing detailed rules in this area at this time, the Commission should simply adopt a rule that imposes the requirement of the Section 254(h)(2) of the Act and provide for

an informal mechanism to resolve disputes, on the basis of particular facts and circumstances, which may arise in the future.

VI.

OTHER UNIVERSAL SERVICE SUPPORT MECHANISMS

In this section of the NPRM, the Commission raises a series of issues relating to a single, common inquiry: “whether the existing method of recovery of common line costs allocated to the interstate jurisdiction comports with economic efficiency and the specific mandates of the 1996 Act.” The simple answer to this inquiry is “no.”

There is no longer serious debate over the fact that those portions of the carrier common line (“CCL”) charge which recoup (a) long-term support and (b) interstate loop costs in excess of the subscriber line charge (“SLC”)³¹ are subsidies.³² In fact, they are the very kind of implicit subsidies that are disfavored in the Act. These costs should be recovered directly from the end user through SLCs. This would not necessarily have any negative impact on subscribership,³³ particularly if it is accompanied by a decrease in the toll rates. The Commission should give carriers the option to increase SLCs for

³¹ The SLC is sometimes referred to as the end user common line charge (“EUCL”).

³² The residual interconnection charge (“RIC”) represents the same kind of subsidy that over time also should be recovered in a more economically efficient manner.

³³ Similar concerns about a negative impact on subscribership were raised at the initiation of SLCs in the 1980s. However, the facts reported in the Monitoring Reports did not support those concerns. Amendment of Part 36 of the Commission’s Rules and Establishment of a Joint Board, Establishment of a Program to Monitor the Impact of Joint Board Decisions, CC Docket Nos. 80-286 and 87-399.

appropriate classes of service and thereby encourage end users to directly bear the costs they cause the local exchange carrier to incur.

VII.

ADMINISTRATION OF SUPPORT MECHANISMS

In this section of the NPRM, the Commission solicits comments on several questions relating to the administration of support mechanisms under Section 254 of the Act, including: How should financial responsibility be divided between interstate and intrastate carriers? Who should contribute to a universal service fund? How should contributions be assessed? And who should administer the fund?³⁴ Here are Ameritech's views on each question.

Since universal service support extends to both interstate and intrastate services, both intrastate and interstate carriers should bear financial responsibility for such support. Assessing universal service support on both an intrastate and interstate basis is more competitively neutral and would reduce the incentive for providers to route their traffic so as to avoid their support obligations.

³⁴ NPRM at pars. 116-131.

Assuming that the universal service fund is not supported entirely with general tax revenues, then support should be assessed against all telecommunications providers in order to satisfy the language of the Act which provides that “[a]ll providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.”³⁵ Obligating all telecommunications providers to support universal service also will ensure competitive neutrality and satisfy the requirement of the Act that subsidies be made explicit rather than buried in other rates. No provider should be exempt, except those providers who can demonstrate that their universal service contribution would be de minimus, i.e. would amount to less than the administrative cost to collect it.³⁶ The definition of those providers with universal service obligations should be reviewed periodically as technology and market offerings change.

The assessment for universal service support should be based on a uniform percentage of net revenues.³⁷ Assessment based on gross revenues

³⁵ Section 254 (b)(4). This should include (a) all wireline service providers, such as local exchange carriers whether incumbent or otherwise, interexchange carriers, competitive access providers, cable companies to the extent they provide telecommunications services and resellers, as well as (b) wireless service providers, such as cellular, PCS, satellite, BETRS, SMRs, paging and resellers. In addition, to the extent the Commission determines enhanced services are telecommunications services, enhanced service providers should carry universal service support obligations, as well.

³⁶ Carriers that are exempt from contributing to the universal service fund because their contribution would be de minimus should not be eligible to receive universal service support.

³⁷ Because this information is highly proprietary, carriers would not be willing to share it without absolute assurance from all parties involved, including the neutral third party administrator, that this information would be kept confidential.